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- Unemployment rate falls to 7.7% as both labour force and employment shrink
- Building permits soften in March, but first quarter results are strong
- Four out of ten marriages in BC end in divorce before couples reach their 30<sup>th</sup> anniversary

## Labour Force

- British Columbia's unemployment rate fell 0.2 percentage points to 7.7% (seasonally adjusted) in April. The drop in the jobless rate occurred as both employment (-0.2%) and the labour force (-0.3%) shrank after posting modest gains in the previous month.

April's job losses were localized in the service sector (-0.7%). Retail and wholesale trade, the biggest service sector employer, cut back its workforce by 5.3%. Other large employers such as health care (-2.0%) and education (-4.2%) also employed fewer people in April. However, transportation & warehousing (+5.2%) and accommodation & food services (+3.2%) took on more staff.

Goods-producing industries made strong gains, with employment expanding 2.1%. All industries within the sector were hiring, with particularly strong job growth occurring in utilities (+13.9%), agriculture (+6.7%) and construction (+3.1%).

Reflecting the downturn in the service sector, fewer women (-0.5%) had jobs in April. There were fewer full-time (-0.5%), but more part-time (+1.3%), jobs. The youth unemployment rate increased 0.4 percentage points, to 14.9%.

Public sector employment advanced 0.5%, but this was offset by a 0.6% decline in the number of private sector jobs. For the second month in a row, self-employment increased 0.8%.

*Data Source: Statistics Canada*

- Kootenay (11.2%, 3-month moving average), Cariboo (13.1%) and North Coast/Nechako (13.9%) continued to experience double-digit unemployment rates in April. In the rest of the province, jobless rates ranged from 5.0% in Northeast to 9.6% in Vancouver Island/Coast. Victoria's unemployment rate (4.4%) was among the lowest in the country; in Vancouver,

7.3% of the labour force was unemployed.

*Data Source: Statistics Canada*

- The Canadian unemployment rate was 7.3% (seasonally adjusted) in April, 0.2 percentage points less than in March. Nationally, the improvement in the unemployment rate reflected a stronger labour market, as the number of people with jobs (+0.3%) grew faster than the labour force (+0.1%). Among provinces, jobless rates ranged from 4.5% in Alberta to 16.5% in Newfoundland. BC continued to have the highest unemployment rate west of Quebec.

*Data Source: Statistics Canada*

## The Economy

- The value of building permits issued by BC municipalities continued to fall (-9.1%, seasonally adjusted) in March. Permits for both residential (-9.9%) and non-residential (-6.3%) projects were down for the second month in a row. Permits in Vancouver slipped 4.3%; in Victoria, they plunged 31.5%. However, permits were sharply higher in Abbotsford (+34.8%). Canadian permits were weak (-4.2%) in March, largely due to a downturn in the non-residential sector (-19.4%). *Data Source: Statistics Canada*

- During the first quarter, building intentions in the province were robust, increasing by a third (+32.7%, seasonally adjusted) over fourth quarter 2003 levels. Planned residential projects (+38.9%) accounted for much of the increase, but intentions for non-residential building projects (+17.1%) were also up significantly.

*Data Source: Statistics Canada*

- Most of the planned spending on new building projects in the first quarter was focussed in the southern regions of the province. Permits increased more than a third in Mainland/Southwest (+36.6%, unadjusted), and rose substantially in both Thompson/Okanagan (+21.0%) and Vancouver Is-

# Infoline

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20% of BC men say that getting a stain on their shirt is embarrassing, while 61% say they don't mind.

land/Coast (+16.5%). Northeast saw a 288% increase over first quarter 2003 levels, with a smaller gain in Nechako (+11.7%). Investment intentions in the rest of the province slumped. Kootenay (-31.8%) saw the biggest decline.

*Data Source: Statistics Canada & BC Stats*

### International Travel

- **Overseas travel to Canada declined (-5.3%) for the second year in a row in 2002.** About 3.8 million visitors from overseas spent an average of 15 nights in Canada, injecting \$5.3 billion into the economy. The UK remained the top overseas tourism market, with 721,000 visitors. Japan (423,000), France (312,000), Germany (292,000) and Australia (149,000) were also important sources of overseas tourists.

*Data Source: SC, Catalogue 66-201*

- **About a third of the 16.2 million overnight visitors to Canada from the US in 2002 were from just three states: New York (2.1 million), Michigan (1.9 million) and Washington (1.7 million).** California (0.9 million) and Ohio (0.9 million) were also important sources of visitors from the US. The number of Americans making overnight car trips to Canada exceeded 10.0 million for the first time since the mid 1970s. Two out of every three US tourists chose this mode of transportation. *Data Source: SC, Catalogue 66-201*

- **Canadians travelling to the US in 2002 were most likely to visit New York (2.2 million), Florida (1.6 million), Washington (1.6 million) and Michigan (1.2 million).** California (0.9 million) and Nevada (0.6 million) were also popular destinations for overnight visits. Overseas travellers favoured sunny locations. Mexico (607,000), Cuba (331,000) and the Dominican Republic (319,000) were among the top five destinations. The UK (720,000) topped the list, while France (505,000) was the third most popular destination in 2002.

*Data Source: SC, Catalogue 66-201*

### Climate Change Indicators

- **Average global temperatures rose 0.6 degrees Celsius during the last century, with most of the increase occurring during two periods: from 1910 to 1945, and from 1976 to 2000.** In coastal British Columbia, the temperature in-

crease during the last century was about 0.5 degrees, while average temperatures in the Interior rose about 1.1 degrees. Northwestern BC saw the mercury climb 1.7 degrees. However, the record for this region is relatively short (about 52 years, compared to 101 years for the rest of the province), so the temperature increase may be influenced by climate variability.

*Data Source: Ministry of Water, Land & Air Protection: Indicators of Climate Change for BC, 2002*

### Divorce

- **A total of 10,125 divorces were finalized in BC in 2002, up 1.1% from the previous year.** Nationally, the number of divorces continued to decline (falling 1.4%, to 70,155). BC and Alberta (+1.4%, to 8,291) were the only provinces where there were more divorces in 2002 than in 2001.

Four out of every ten (41.0%) married couples in British Columbia will divorce before they celebrate their 30<sup>th</sup> wedding anniversary. Alberta (41.9%) and Quebec (47.6%), where nearly half of all married couples were likely to have split up by the 30<sup>th</sup> anniversary of their wedding, have the highest divorce rates. The national average was 37.6% in 2002.

The likelihood of divorce rises rapidly after the first year of marriage, peaking in the fourth year, and declining thereafter. Six out of ten Canadian couples who divorced in 2002 had been married less than 15 years.

Couples who divorce are getting older. In 2002, the average age at divorce was 43.1 for men and 40.5 for women. This compares to average ages of 39.0 and 36.3, respectively, in 1986.

*Data Source: Statistics Canada*

- **Court proceedings were used to determine custody of dependent children in 28% of the divorces (involving 35,000 children) finalized in 2002.** For the first time ever, less than half (49.5%) of these children were placed in the care of the wife. In 2002, 8.5% of the children were placed in the custody of the husband, while 41.8% were in joint custody arrangements.

*Data Source: Statistics Canada*

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## BC Ferries—There and Back Again

In 1960, BC Ferries began as a two-ship, two-terminal operation. Today, with over 20 million passengers each year, BC Ferries is one of the largest ferry systems in the world, second only to Washington State Ferries. This report examines the history, operations, and outlook of BC Ferries.

### BC Ferries History<sup>1</sup>

Beginning around 1900, ferry service between Victoria and Vancouver was offered by a private company, Canadian Pacific Railway (CPR). By the 1950s, the CPR vessels were still miniature ocean liners, aged and poorly adapted for car service. Service was infrequent and the company rejected calls for more modern ships and better service, on the grounds that capital investments in the route would not be profitable.

Nanaimo actually had better ferry connections to Vancouver than did Victoria. There, two private operators offered service: CPR and Black Ball Ferries.

In 1958, a bitter strike at CPR shut down the Victoria – Vancouver service for two-and-a-half months, and the ferry from Nanaimo was the only water transportation link with the mainland. Canadian Pacific was under federal jurisdiction, and Ottawa was slow to react. More than two-weeks into the strike, the federal government mediator merely commented that it seemed the strike "will continue indefinitely".

In contrast to CPR, Black Ball Ferries operated under provincial jurisdiction. When workers at Black Ball served notice to strike in solidarity

with workers at CPR, reaction from the provincial government was definitive. Premier W.A.C. Bennett, invoking the emergency Civil Defence Act, seized possession of Black Ball Ferries, appointed a new board of directors, and operated the route under direct provincial control. A month later, the union violated the Civil Defence Act and walked off the job—an attempt to force an end to the CPR strike.

The ensuing crisis – four days in which the Island was essentially cut off from the mainland – finally provoked action from the federal government, and the CPR strike came to a quick end.

At the same time, W.A.C. Bennett declared that "in the future, ferry connections between Vancouver Island and the mainland shall not be subject either to the whim of union policy nor to the indifference of federal agencies". The government announced it would build its own ferry system, and soon began construction of terminals at Tsawwassen and Swartz Bay. BC Ferries came on line in 1960, and in the next year the government bought out Black Ball Ferries' Nanaimo route.

Though precipitated by a major transportation crisis, BC Ferries was part of a broader program of "province-building". Under W.A.C. Bennett, the province took on massive public works programs, established crown corporations such as BC Rail and BC Hydro (an expropriation of a private company, BC Electric), and founded several universities (SFU, BCIT, and UVic). As in so many other areas, the Bennett government saw the ferry service as inadequate for the needs of the day, and set about to completely rebuild the system.

<sup>1</sup> This section is largely extracted from "W.A.C. Bennett and His Choice of State Enterprise: The 1958 Case of British Columbia Ferries," by Frank Leonard, 2002. University of Victoria (Masters thesis, Department of History)

## BC Ferries Today<sup>2</sup>

BC Ferries carried 21.3 million passengers and 8.3 million vehicles in 2002/03. About 51% of passenger traffic and 45% of vehicle trips were on the Vancouver Island – Mainland routes.

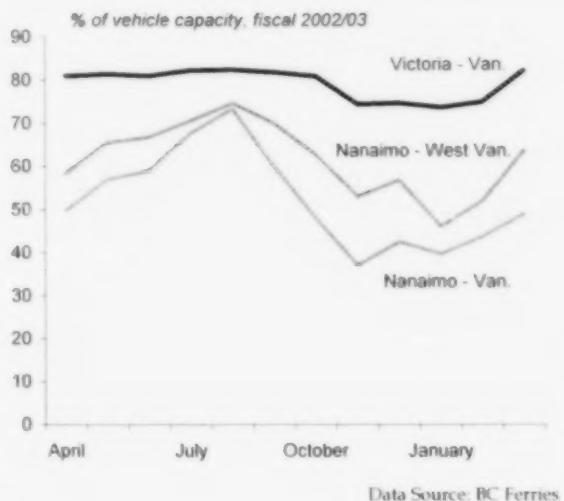
Since the late 1980s, the annual volume of passenger traffic has increased 27%. However, passenger traffic has lagged behind BC's population growth (+36% over the same period). There were 5.1 passenger trips per 1,000 population in 2003, down slightly from 5.5 in 1987.

The BC ferry fleet, on average, runs at about 30% capacity for passengers and roughly 55% capacity for vehicles. Low rates of capacity utilization reflect seasonal patterns of ferry use. For example, in 2003, there were about one million vehicle trips in August. This was double the vehicle traffic in February. BC Ferries also adjusts its capacity – such as the number of sailings – to match seasonal demand. On the main Victoria – Vancouver route, capacity management is very precise. Vehicle capacity is held almost constant at 82% in the high season and 74% in the low season.

On the Nanaimo – West Vancouver route, in contrast, vehicle capacity fluctuates widely by month, from 46% in January to 75% in August. Thus, on this route, ferry service is more stable over the year, rather than being carefully matched to traffic volumes. Average capacity utilization over the year is about 62%, significantly lower than the Victoria-Vancouver route (79%).

On the inter-island runs (for example, service to the Gulf Islands) capacity utilization is even lower, averaging 42% of vehicle capacity.

## On Some Routes, Capacity Utilization Fluctuates Widely



Data Source: BC Ferries

The ferry system has not, in general, been a net income earning operation. In four out of the last five years, BC Ferries has posted a net income loss. In 2002/03, there was a net loss of \$29 million – roughly 5.5% of total expenditures. Of course, BC Ferries, unlike the BC Lottery Corporation or the Liquor Distribution Branch, has never had a strong mandate to earn revenues for the government. Affordable, frequent service provision has generally been a higher priority than commercial profitability.

In recent years there has been an expansion of food services, most prominently in partnerships with the White Spot restaurants, Starbucks Coffee, and Villages Pizza. Over the last three years, food and beverage sales per passenger have increased 10%, suggesting customer approval.

Another recent policy change has been the introduction of the reservation system. In the system's first year, 1998, only 3% of vehicle trips opted for the \$15 reservation. By 2003, 17% of vehicles boarded with a reservation, generating over \$7 million in additional revenues. The use of reservations varies widely by season, from only 9% in the winter months to 20% in the summer.

<sup>2</sup> This section draws largely on data in the BC Ferries 2002/03 annual report.

With this many vehicles reserving space, particularly in the summer, it may be increasingly difficult to board a ferry without a reservation.

Finally, a lingering problem at BC Ferries is scheduling. In 2002/03, only 75% of mainland sailings were "on time" (within 10 minutes of schedule).

## Vancouver Island—Mainland Routes: A Price Analysis

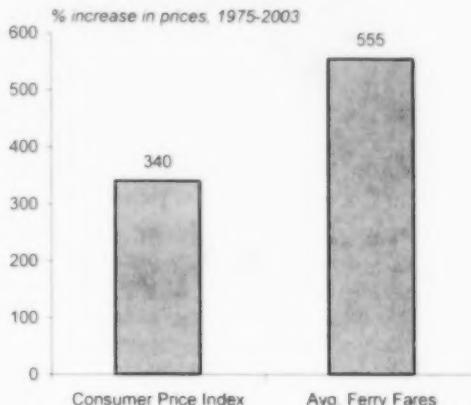
BC Stats has constructed a weighted average ferry fare that includes prices for adults, children, seniors, discounted fares (low season and discounted weekdays), vehicle prices (cars and motorcycles), and reservation fees. These various prices are weighted by their frequency in BC Ferries traffic. The average price covers fares for the Vancouver Island—Mainland routes.

Average fares on the Vancouver Island—Mainland routes have increased steeply over the years, well above the rate of inflation. Since 1975, the Vancouver consumer price index has increased 340%. Average ferry fares over the same period have risen 555%.

For example, in 1975, the car price was \$5, or roughly \$17 in constant 2003 dollars (adjusting for inflation). Last year, the average fare for a car was \$30—a real increase of \$13 (+77%).

The real (inflation adjusted) weighted average price of taking a ferry trip has risen from \$9 in 1975 to nearly \$15 in 2003 (+63%).

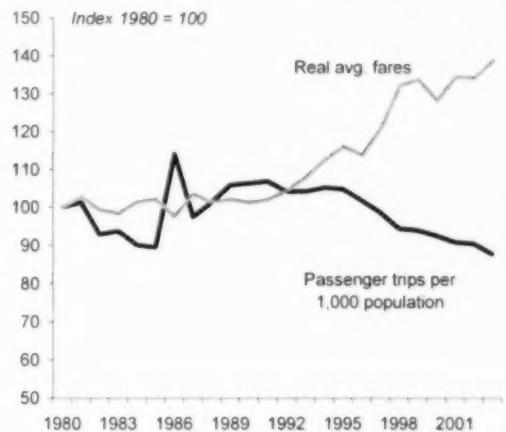
## Ferry Fare Increases Higher than Vancouver Inflation



Data Source: BC Stats and BC Ferries

In spite of rising ferry fares, the volume of passengers aboard BC Ferries rose 33% between 1980 and 2003. However, the BC population increased by 55% over the same period. On the Vancouver Island—Mainland routes, the number of passenger trips per 1,000 population has fallen from 3.0 in 1980 to 2.6 in 2003 (-12%). Similarly, the number of vehicle trips per 10,000 population was 8.9 last year, down from 10.1 in 1980 (-12%).

## Passenger Trips Fall as Fares Increase



Data Source: BC Stats and BC Ferries

A simple correlation analysis suggests that real (inflation adjusted) average fares explain 51% of the trend in passenger trips per 1,000 population<sup>3</sup>.

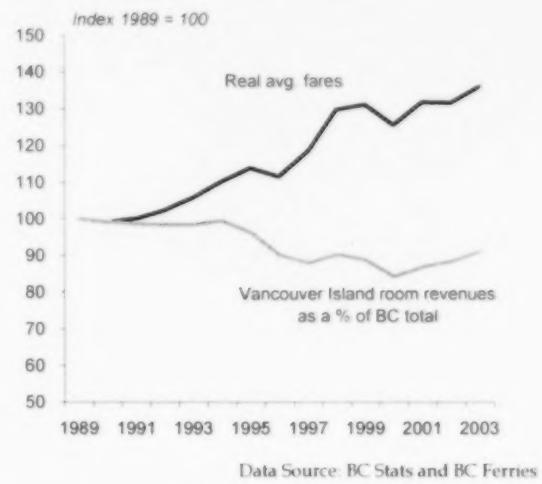
However, with 49% of the variation in passenger trips per 1,000 population unexplained, it is clear that a considerable portion of BC Ferries traffic is not very price sensitive. These passengers are likely businesses and Vancouver Island residents that have few alternatives to using the ferry system. Tourism-related ferry traffic is likely to be more sensitive to changes in prices.

Indeed, it seems that rising ferry prices have adversely affected tourism to Vancouver Island. The Island's share of provincial tourism—as measured by accommodation room revenues—is in decline. The share of total room revenues has fallen from 20.2% in 1989 to 18.4% in 2003—a drop of 1.8 percentage points. This represents about \$30 million in room revenues.

The trend in Vancouver Island's share of room revenues has closely followed changes in ferry prices. This suggests that BC Ferries has been, to a degree, pricing Vancouver Island out of the tourism market. A simple correlation analysis indicates that real average ferry prices "explain" some 84% of the change in Vancouver Island's share of room revenues.

As a rough estimate, one can suggest that the rising ferry rates since 1989 are associated with about \$26 million in lost room revenues on the Island in 2003 alone. To the extent that Vancouver Island is a destination for visitors outside of the province, it is likely that the BC tourism sector as a whole has been affected.

### Vancouver Island's share of room revenues falls as ferry prices rise



Data Source: BC Stats and BC Ferries

### BC Ferries Outlook

In 2003, BC Ferries was reorganized as a private sector corporation. At the same time, the BC Ferry Authority was established as sole owner of the new company. The provincial government appoints the directors of the Ferry Authority, and private investment in BC Ferries is not permitted.

As well, the company is regulated by the new BC Ferry Commission, which has authority over ferry fares, routes, service levels, and capital spending.

The BC Ferry Commission describes the arrangement as an "effective monopoly" that is "publicly owned but private-functioning"<sup>4</sup>. Further, virtually all significant business decisions are subject to regulatory approval.

Thus, the re-organization at BC Ferries has not dramatically changed the nature of the company. However, there is a new mandate to operate as a commercial enterprise—with, perhaps, a greater degree of separation from the government.

<sup>3</sup> BC Ferries, in its last annual report, pointed out that "large multiple tariff increases in 1997" were a significant factor in declining passenger volumes in the late 1990s.

<sup>4</sup> [http://www.bcferrycommission.com/about\\_bc\\_ferries.html](http://www.bcferrycommission.com/about_bc_ferries.html). Retrieved March 22, 2004.

## Revenues

Passenger and vehicle fares in 2002/03 contributed 64% of total BC Ferries revenue. Last fiscal year, BC Ferries received \$23.4 million in subsidies from the federal government and \$74.2 million from the province. These payments represented 20% of total BC Ferries revenues. The provincial subsidy, according the BC Ferries annual report, is expected to rise to \$105.5 million in 2003/04.

However, under legislation, the long-term plan is for the ferry service to "move towards a greater reliance on a user pay system so as to reduce, over time, the service fee contributions by the government" (Coastal Ferry Act, Section 38).

## Capital Costs

BC Ferries has an ageing fleet. The average age of vessels is 30 years old, and the ships have an expected operational life span of 40 years.

In 1994, the average age of the fleet was 24 years, and the goal at that time was to bring the average age down through vessel replacement. The ill-fated fast ferries project, which was not recommended by BC Ferries, was a major part of the plan for fleet renewal. The auditor general's conclusion was that, in the end, the fast ferry project had "adversely affected BC Ferries' ability to renew its fleet"<sup>5</sup>.

BC Ferries is currently planning to spend \$1.8 billion over the next 12 years on an asset replacement program<sup>6</sup>. Thus, capital expenditure requirements may create pressure for further real price increases in the future.

## Conclusion

BC Ferries is facing pressures to move closer to a fully user-pay system and at the same time upgrade its fleet. The pattern of rising ferry fares is likely to continue into the foreseeable future, which could slow future tourism growth on Vancouver Island.

<sup>5</sup> Auditor General. *A Review of the Fast Ferry Project Governance and Risk Management*. 1999/2000 Report 5. Office of the Auditor General of British Columbia.

<sup>6</sup> British Columbia Ferry Corporation. *2002/03 Annual Report*. BC Ferries.

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## BC at a glance . . .

POPULATION (thousands)		% change on Jan 1/04
BC	4,168.1	1.0
Canada	31,752.8	0.9
GDP and INCOME		% change on one year ago
(BC - at market prices)	2003	
Gross Domestic Product (GDP) (\$ millions)	142,418	5.1
GDP (\$ 1997 millions)	130,914	2.2
GDP (\$ 1997 per Capita)	31,572	1.4
Personal Disposable Income (\$ 1997 per Capita)	19,495	-0.4
TRADE (\$ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Feb	3,164	1.9
Merchandise Exports - Feb	2,388	5.9
Retail Sales - Feb	3,524	2.4
CONSUMER PRICE INDEX		12-month avg % change
(all items - 1992=100)	Mar '04	
BC	121.6	1.7
Canada	123.6	1.9
LABOUR FORCE (thousands)		% change on prev. month
(seasonally adjusted)	Apr '04	
Labour Force - BC	2,209	-0.3
Employed - BC	2,038	-0.2
Unemployed - BC	171	-1.6
Unemployment Rate - BC (percent)	Mar '04	
Unemployment Rate - Canada (percent)	7.7	7.9
INTEREST RATES (percent)	May 5/04	May 7/03
Prime Business Rate	3.75	5.00
Conventional Mortgages - 1 year	4.45	5.35
- 5 year	6.15	6.50
US/CANADA EXCHANGE RATE		
(avg. noon spot rate) Cdn \$	May 5/04	May 7/03
US \$ (reciprocal of the closing rate)	1.3728	1.4009
	0.7275	0.7156
AVERAGE WEEKLY WAGE RATE		% change on one year ago
(industrial aggregate - dollars)	Apr '04	
BC	675.17	-0.8
Canada	681.16	3.2
SOURCES:		
Population, Gross Domestic Product, Trade,	Statistics Canada	
Prices, Labour Force, Wage Rate		
Interest Rates, Exchange Rates, Bank of Canada Weekly Financial Statistics		
For latest Weekly Financial Statistics see <a href="http://www.bankofcanada.ca">www.bankofcanada.ca</a>		

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